

Automotive Trade Policy Council

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HOW THE U.S. GOVERNMENT ALLOWED THE JAPANESE GOVERNMENT TO MANIPULATE ITS CURRENCY

While previous Republican and Democratic administrations attempted to stop currency interventions by the Government of Japan, former U.S. Treasury Under Secretary for International Affairs John B. Taylor details in his new book that the U.S. Treasury Department actively supported the Japanese government's manipulation of the Japanese yen from 2002 to March 2004. In *Global Financial Warriors: The Untold Story of International Finance in the Post 9-11 World*, Taylor, who was Treasury Under Secretary from 2001 to 2005, justifies U.S. backing for "The Great Intervention" as necessary to spur Japan's economic recovery and ensure its support for U.S. foreign diplomatic and military policies.

Between 2000 and 2004, the Japanese government intervened in currency markets to weaken the yen, spending more than \$400 billion in the process. Since then, the government has engaged in "jawboning" – actively talking down the value of the yen through public statements that make it clear to currency traders that they are willing to intervene again if necessary.

Taylor reveals in his book that the Bush Administration secretly supported Japanese intervention in currency markets so long as the Treasury Department was kept regularly informed. Taylor arranged for the Japanese to "e-mail me personally whenever they intervened in the market, and to call me about very large interventions."

Excerpts from John Taylor's book:

- "An increase in the price of the dollar makes U.S. exports less attractive, and thereby makes U.S. exporting firms and their employees very unhappy." (page 282)
- "Our policy toward exchange rate intervention in Japan was part of our effort to be supportive of quantitative easing. By not registering our strong objections to the intervention, effectively allowing it to happen, we made it easier for the Japanese to pump up their money supply." (page 286)
- "I did not object, as Treasury might have in the past [when told by the Japanese government that its currency intervention was going to increase], but I repeated our own views about keeping intervention to a minimum. True to their word intervention did increase; eventually it increased to unprecedented magnitudes, to \$320 billion!" (page 286)
- "After a few months into 2003, the unprecedented nature of the intervention was becoming clear to everyone." (page 286)
- Quoting BusinessWeek: "...[Japanese Finance Minister Zembei Mizoguchi] enjoys celebrity status. And with good reason: This financial diplomat – call him Mr. Dollar – is the architect of perhaps the biggest single-handed currency intervention since World War II." (page 294)
- "If the United States thinks that Japan or China should stop intervening, then it must develop a diplomatic strategy to bring this change about." (page 281)

It is time for U.S. policy to place the needs and survival of its own manufacturing sector first. To do so will require the U.S. to demand that the Japanese allow the yen to regain its true value. Japan must be pressed to bring its currency into alignment and trim its excessive and systemic currency reserves and trade surpluses.